

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Retail Ground and Parcel Select Ground
Service Standard Changes, 2022

Docket No. N2022-1

STATEMENT OF POSITION OF THE PUBLIC REPRESENTATIVE

(May 11, 2022)

Respectfully Submitted,
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Docket No. N2022-1

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I. INTRODUCTION

On March 21, 2022, the Postal Service filed a request with the Commission for an advisory opinion regarding planned changes to the service standards for Retail Ground (RG) and Parcel Select Ground (PSG).¹ In essence, the Postal Service seeks to upgrade the service standards for RG and PSG from the current 2- to 8-day standard to a 2- to 5-day standard. Request at 2. These changes are meant to correspond with the 2- to 5-day service standard for First-Class Package Service (FCPS) considered by the Commission in Docket No. N2021-2. *Id.* at 2-3. The intended implementation of these proposed service changes is no earlier than 90 days after the filing of the Request. *Id.* at 5.

This statement of position, pursuant to 39 C.F.R. § 3020.123(g), outlines the legal standards applicable to the Commission's advisory opinion, as well as the Postal Service's plan and the supporting witness testimony which describe the rationale for the proposed service changes. The Public Representative then discusses the relative merits and shortcomings of the Postal Service's proposal. As a general matter, the Public Representative supports the Postal Service's plan and appreciates its efforts to provide faster service for RG and PSG products and maximize the efficiency of its transportation networks. However, the Public Representative does note some areas in which the impacts of the proposed service standard changes may not yet have been fully examined and encourages the Postal Service to consider them in detail.

II. LEGAL STANDARD

Pursuant to 39 U.S.C. § 3661(b), when determining "that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis," the Postal Service must submit a proposal to the Commission requesting an advisory opinion on the change. The Commission

¹ United States Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, March 21, 2022 (Request).

must then provide an opportunity for a public hearing discussing the proposed change and issue a written advisory opinion on the matter. See *id.* § 3661(c).

Here, the Postal Service “requests that the Commission issue an advisory opinion that the [changes in service standards for RG and PSG] conform to the policies in title 39 of the United States Code.” Request at 10. However, the relevant statute does not require that the Commission issue an advisory opinion concerning whether the Postal Service’s proposed service standard changes conform to the policies of title 39. Instead, as established in prior proceedings, it merely requires that the Commission offer its advice on the proposal and requires that said advice conforms to the policies of title 39.²

With this statement, the Public Representative seeks to provide an analysis of the Postal Service’s proposed service standard changes that the Commission may consider and utilize as part of the development of its advisory opinion.

III. POSTAL SERVICE PROPOSED SERVICE CHANGES AND RATIONALE

A. Postal Service Request

As discussed above, the Postal Service is proposing significant revisions to the current service standards for RG and PSG products. RG “is an economical ground shipping solution for retail (single-piece) customers for packages, thick envelopes, and tubes weighing less than 70 pounds and up to 130 inches combined length and girth that are not required to be sent as First-Class Mail.” Request at 2. PSG is similar but designed for commercial shippers. *Id.* Currently, for end-to-end packages sent within the contiguous United States, RG and PSG have a service standard ranging from 2 to 8

² Section 3661 of title 39 requires that the Commission’s advisory opinion conform to the applicable policies of title 39—not that the Commission review the Request for conformance to the policies of title 39. See 39 U.S.C. § 3661 (c) (“The opinion shall be in writing and shall include a certification by each Commissioner agreeing with the opinion that in his judgment *the opinion* conforms to the policies established under this title”) (emphasis added); see *also* Docket No. N2021-2, Initial Brief of the Public Representative, August 20, 2021, at 2; Docket No. N2014-1, Initial Brief of the Public Representative, February 20, 2014, at 5-6; Docket No. N2012-1, Initial Brief of the Public Representative, July 10, 2012, at 5-7.

days. *Id.* at 3. The Postal Service plans to upgrade that service standard to correspond with the new 2- to 5-day service standard for FCPS. *Id.* at 2, 3.

The Postal Service asserts that the proposed change would simplify the operational scheme for processing and transporting RG and PSG package volume by combining it with FCPS volume. *Id.* at 3. It asserts that by consolidating RG and PSG volume with FCPS volume, it can offer faster service for packages that exceed FCPS's weight and size limitations. *Id.* at 6. The Postal Service submits that the proposed changes will result in further improvement and rationalization of its portfolio of package products. *Id.*

Additionally, the Postal Service contends that shifting RG and PSG volume to follow FCPS volume would enable the further optimization of its package processing and surface transportation networks in three ways. *Id.* at 7. First, it asserts that the added volume would fill existing unused capacity, maximizing surface transportation utility and value. *Id.* Second, the Postal Service states that, by eliminating the current interim processing stops, it can reduce the overall processing burden while improving speed and reliability by reducing touch points. *Id.* Third, it asserts that by combining multiple sorts, the proposed change would improve volume and capacity in surface lanes. *Id.*

Moreover, the Postal Service asserts that the proposed changes will continue to achieve the broader policies of title 39, United States Code and will not cause any undue or unreasonable discrimination against any users of the mail. *See id.* at 7-8.

B. Witness Testimony

The Postal Service's proposal is supported by the accompanying testimony of several witnesses.³ Witness Steven E. Jarboe describes the RG and PSG products, markets, and customer base, as well as the need for improving service for these

³ On April 15, 2022, the Postal Service revised certain portions of its witnesses' testimony, originally filed on March 21, 2022. *See* Notice of the United States Postal Service of Revisions to Certain Pages of USPS-T-1 and USPS-T-3 – Errata, April 15, 2022 (Notice of Revisions). For simplicity's sake, any reference to the testimony of these witnesses will refer to their revised testimony.

products.⁴ He also identifies how the planned service standard changes will impact the subject market and its customers. *Id.* Witness Kevin P. Bray describes the change in operational handling of RG and PSG necessitated by the planned service standard changes, as well as the exceptions from the changes and circumstances under which RG and PSG shipments will deviate from the FCPS transportation network.⁵ Witness A. Thomas Bozzo describes the overall estimated change in cost caused by the planned service standard changes as well as the methodology used to calculate it.⁶

1. Witness Jarboe Testimony

Witness Jarboe explains that the Postal Service conducted market research on the shipping community that determined that the ground package shipping market specifically is large and growing. Witness Jarboe Testimony at 5. According to Witness Jarboe, the Postal Service's analysis disclosed an untapped market for economically priced, medium-speed ground shipping products. *Id.* at 5-6.

Specifically, the Postal Service's consultants determined that 17.9 billion ground packages were shipped in 2021. *Id.* at 6. This constituted 76 percent of overall annual volume (air and ground transportation combined), an increase of 4 percentage points since 2017. *Id.* Because, according to the Postal Service, more commercial shippers are relocating their inventories closer to cities, he believes that the demand for ground shipping service will increase. *Id.* at 6-7. In the Postal Service's experiences, ground shipping customers are more price conscious than others. *Id.* at 7.

Moreover, the Postal Service's consultants conducted interviews with, and surveys of, industry experts and commercial shippers which, according to the Postal Service, confirmed the market demand for increased package delivery speed. *Id.* at 7.

⁴ See Request at 9; see also Direct Testimony of Steven E. Jarboe on Behalf of the United States Postal Service (USPS-T-1), March 21, 2022 (Witness Jarboe Testimony).

⁵ See Request at 9; see also Direct Testimony of Kevin P. Bray on Behalf of the United States Postal Service (USPS-T-2), March 21, 2022 (Witness Bray Testimony).

⁶ See Request at 9; see also Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-T-3), March 21, 2022 (Witness Bozzo Testimony).

Witness Jarboe explains that, currently, although the Postal Service offers Priority Mail (PM) in the medium-speed, medium-price market and FCPS in the medium-speed, low-price market, because FCPS is restricted to lightweight packages, it has no offerings in the medium-speed, low-price market sector for larger items. *Id.* at 8. Moreover, “at 2- to 8-days, the service standard for RG-PSG simply does not align with and is considerably slower than comparable products of private-sector competitors.” *Id.* at 9. By aligning RG and PSG processing and transportation with FCPS, the Postal Service believes it can fill this gap in its offerings without appreciably increasing RG and PSG costs. *Id.* at 9-10. In other words, Witness Jarboe explains that “having a 2- to 5-day product for both light and heavier packages will better align the Postal Service’s product portfolio to the package shipping market and enable the Postal Service to better compete with its private-sector competitors.”⁷

Witness Jarboe does explain that, “[b]ecause the enhanced RG-PSG product is priced below PM, which presently serves the medium-speed, medium-price market segment, an enhanced RG-PSG product may result in some diversion of PM volumes.” Witness Jarboe Testimony at 10-11. However, he explains that PM remains a faster shipping option in some lanes and has other added benefits (flat rate pricing, included insurance) that will continue to differentiate it from RG and PSG and therefore appeal to other customer needs. *Id.* at 11.

2. Witness Bray Testimony

Witness Bray’s testimony seeks to describe the nature of the operational changes that the Postal Services proposes to implement to revise the current service standards for the RG and PSG products. Witness Bray Testimony at 1. To describe how the Postal Service intends to upgrade the service standard from 2-8 days to 2-5

⁷ *Id.* at 10. These competing products currently include UPS SurePost and FedEx Ground Economy. Responses of the United States Postal Service to Questions 1-10 of Presiding Officer’s Information Request No. 1, April 8, 2022, question 6.b. (Response to POIR No. 1). After the proposed changes, Witness Jarboe expects RG and PSG to compete instead with UPS Ground and FedEx Ground. *Id.*

days, Witness Bray explains the current and future operational state of RG and PSG using the relevant processing nodes or “touches,” as summarized below. *Id.* at 2-6.

Table 1
Retail Ground Current and Future Touches

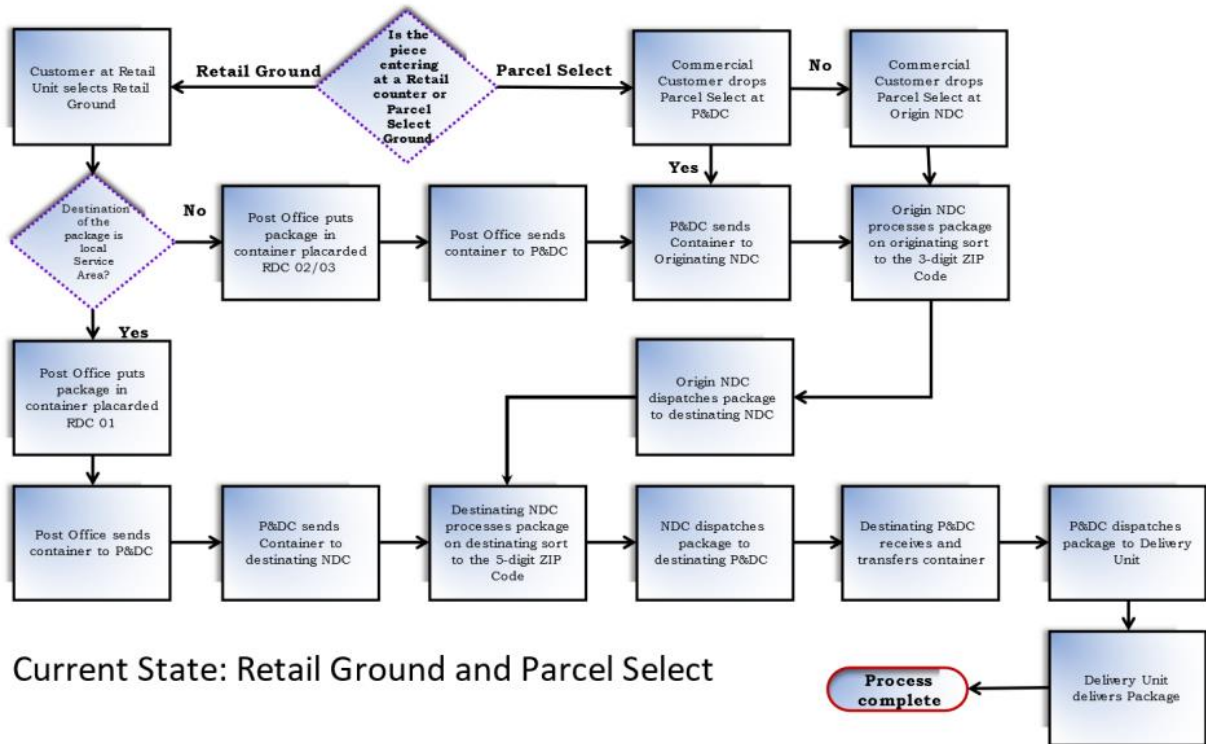
	Current State	Future State
Touch 1	The trajectory of an RG package begins at the Post Office. A customer, seeking an economical shipping option for a package that meets the requisite weight and size criteria, purchases the Retail Ground Service product. A label bearing the Retail Distribution Code (RDC) for Retail Ground Service is affixed to the package to be shipped. This label corresponds to a bin for Retail Ground mailings, to which the package is accordingly consigned. These bins may bear one of two designations: “Retail Ground 1,” for packages shipped to the tier 1 host Network Distribution Center (NDC) for local destination points; and “Retail Ground 2,” for packages that will travel longer distances and are (as described below) routed to the tier 2 NDCs for destinations outside the local area.	As in the current state, RG packages would begin their future state trajectory at a Post Office, where they would be merged with FCPS shipments. (Note that the distinction, in the current state described above, between “Retail Ground 1” and “Retail Ground 2” labelling would no longer be required.)
Touch 2	The Retail Ground bins travel to a Processing and Distribution Center (P&DC). P&DCs, generally speaking, are facilities that process and dispatch volume arriving from Post Offices and collection boxes in specific geographic locations. Here, RG bins are grouped together and placed on trailers that convey them to geographically appropriate NDCs.	RG packages would then travel to origin P&DCs, where they would be sorted based on their respective destination ZIP Codes. (Note that at this point in the future state operational flow methodology, a bifurcation would occur: RG shipments heading to local destination points would be sorted based on their full five-digit destination ZIP Codes and would then be routed to delivery units for final delivery, whereas RG shipments heading to destination points outside the local area would be sorted based on the first three digits of their destination ZIP Codes and would then be routed to destinating P&DCs for further processing).
Touch 3	Formerly known as Bulk Mail Centers, NDCs are designed to consolidate the processing of certain categories of mail. This means, in practical terms and with specific reference to RG Service, that the RG bins arriving from the P&DCs mentioned above are sorted into groups based on their respective destination ZIP Codes. Note that at this point in the operational flow methodology, a bifurcation	<i>For RG packages travelling to destinations outside the local area.</i> Based on their 3-digit ZIP Codes, RG packages would next travel to destination P&DCs, where they would be further sorted based on their full five-digit destination ZIP Codes, merged with other volume destined for the same ZIP Code, and conveyed within this new grouping to destination delivery units.

	occurs. RG bins bearing the “Retail Ground 1” designation— <i>i.e.</i> , bins containing packages shipped to local destination points— arrive at tier 1 host NDCs, where they are sorted based on their full five-digit destination ZIP Codes and are then routed to geographically appropriate P&DCs. RG bins bearing the “Retail Ground 2” designation— <i>i.e.</i> , bins containing packages shipped to destination points outside the local area—arrive at tier 2 NDCs, where they are sorted based on the first three digits of their destination ZIP Codes and are then routed to destinating NDCs for further processing (as described in “Touch 4” immediately below).	
Touch 4	<i>For RG packages bearing the “Retail Ground 2” designation, which travel to destinations outside the local area.</i> RG bins bearing the “Retail Ground 2” designation, previously sorted by 3-digit ZIP Code, are conveyed to destinating NDCs, which further disaggregate those bins’ contents based on their full five-digit destination ZIP Codes. This newly sorted RG volume is then distributed to geographically appropriate P&DCs.	From these destination units, the RG packages would then be delivered to their destination addresses.
Touch 5	Destinating P&DCs combine the RG volume they receive with other mail destined for the same 5-digit ZIP Code, and convey these new groupings to destination delivery units.	N/A
Touch 6	From these destination delivery units, RG packages are delivered to their destination address.	N/A

Source: Witness Bray Testimony at 2-4, 5-6.

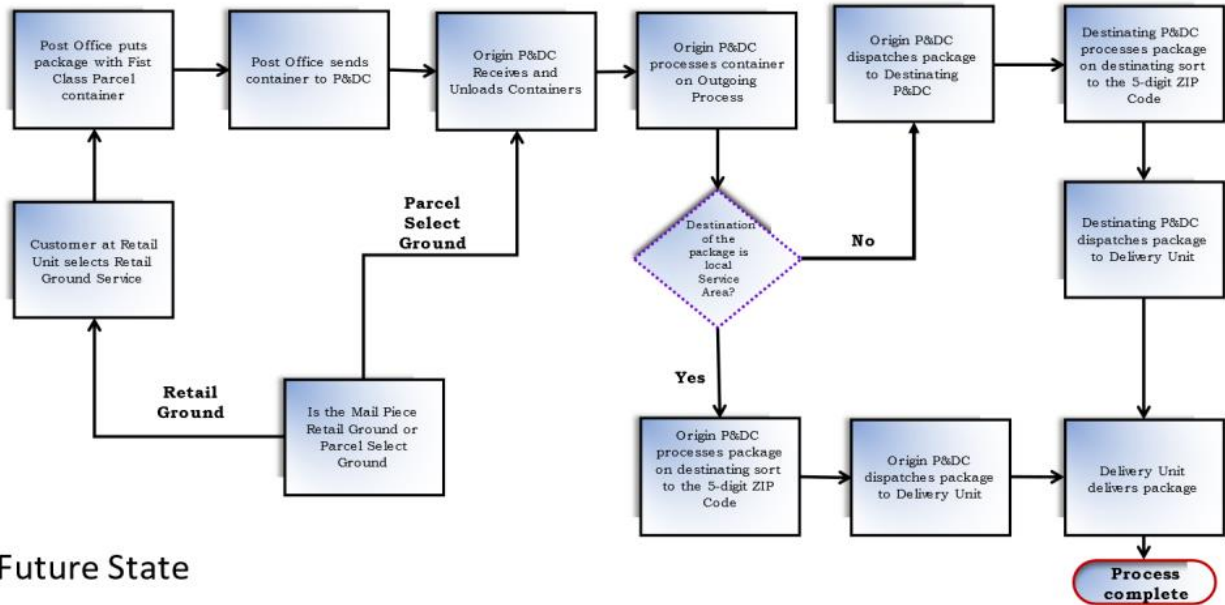
Further, Witness Bray provides a visual representation via two flowcharts to demonstrate the Postal Services proposed improvements. *Id.* at 5, 7, 10.

Figure 1
Postal Service Flowchart of Current State of
Retail Ground and Parcel Select Ground



Source: Witness Bray Testimony at 5.

Figure 2
Postal Service Flowchart of Future State of
Retail Ground and Parcel Select Ground



Future State

Source: Witness Bray Testimony at 10.

With the flowcharts showing the touches for RG and PSG becoming fewer (as demonstrated above), the Postal Service accordingly proposes revisions to the relevant business rules. *Id.* at 8-9.

Table 2
Postal Service's Current and Planned Rules

Service Standard	Current Rules (Contiguous US)	Planned Rules (Contiguous US)
2-day	If Origin and Destination Processing and Distribution Center (PDC) are the same facility, then Service Standard is 2 days.	Intra-SCF and Origin to Destination pairs where total transit time is up to 8-hrs (~372 miles) from Origin to Destination ADC to Destination SCF.
3-day	If Origin and Destination Processing and Distribution Center (PDC) are not the same facility, then the package is routed through a Network Distribution Center (NDC) and an Auxiliary Service Facility (ASF), if needed. If Origin and Destination NDC are the same, and there is no ASF required, then Service Standard is 3 days.	Where the total transit time is greater than 8-hrs and up to 32-hrs (~1,488 miles) from Origin PDC to Destination ADC to Destination SCF.
4-day	If Origin and Destination NDC are the same, and there is an ASF required, then Service Standard is 4 days.	Where the total transit time is greater than 32-hrs and up to 50-hrs (~2,325 miles) from Origin PDC to Destination ADC to Destination SCF.
5-day	If Origin and Destination NDC are not the same, determine the travel days between NDC facilities. If an ASF is not required, and the travel time between NDC facilities is 1 day or less, then the Service Standard is 5 days.	Where the total transit time is greater than 50-hrs from Origin PDC to Destination ADC to Destination SCF.
6-8 day	If Origin and Destination NDC are not the same, determine the travel days between NDC facilities within Service Standard Directory (SSD). If ASF is not required, then the Service Standard equals the travel time of 2 or more + 4. If ASF is required, then the Service Standard equals the travel time of 2 or more + 5.	N/A

Source: Witness Bray Testimony at 8-9.

In explaining these business rules, Witness Bray provides two important qualifications. The first is that, within the PSG product line, the planned changes would only apply to the “end-to-end” (or full-network) PSG product and not to Parcel Select Destination Entry, which is subject to its own 1- to 3-day service standard. *Id.* at 9 n.2. The second is that PSG shipments deposited directly at P&DCs would be transferred to

FCPS containers, along with RG and PSG shipments originating at retail locations, while those deposited at NDCs would need to be first transferred to a corresponding P&DC. *Id.* at 9.

Witness Bray explains that the “fundamental benefit of the upgraded service standards is to enhance service to customers sending larger packages.” *Id.* at 10 (footnote omitted). Witness Bray also demonstrates how the 828,954 OD pairs are currently allocated within the current service standards and how the Postal Service’s plan would allocate those pairs in the future, shown below. *Id.* at 11.

Figure 3
Number of 3-Digit OD Pairs in the Contiguous United States Subject to Service Standard Change for Retail Ground and Parcel Select Ground

	Current Service Standards	Planned Service Standards
2-Day	6,305	105,049
3-Day	31,973	491,638
4-Day	6,554	158,612
5-Day	290,402	73,655
6-Day	327,556	-
7-Day	155,939	-
8-Day	10,225	-

Source: Witness Bray Testimony at 11.

As it stands, only approximately 40 percent of current OD pairs fall within a 5-day (or better) service standard. *Id.* at 12. The proposed change seeks to capture all 100 percent of relevant OD pairs. *Id.*

Witness Bray explains that he anticipates that the FCPS surface transportation network contains sufficient capacity to absorb future volumes of RG and PSG shipments. *Id.* at 12. He states that in the current FCPS transportation network, floor

utilization rates typically range from 42 to 48 percent. *Id.* Witness Bray believes that the relatively small volumes of RG and PSG products would not exceed the surface network's capacity. *Id.* at 13.

Hazardous Materials (HAZMAT) shipments, certain live animal shipments, and offshore (*i.e.*, beyond the contiguous United States) shipments are excepted from the proposed service standard changes. *Id.* at 13. These three categories of items would continue to travel via the transportation networks currently in place for them. *Id.*

Witness Bray explains that, given the current state of the FCPS surface transportation network, certain RG and PSG packages may require the use of air transportation. *Id.* at 16-17. This could occur when surface transport is not feasible within the 5-day window or there is not enough density to justify the cost of ground transportation. *Id.* at 16. Witness Bray estimates that currently 14.0 percent of RG volume and 15.6 percent of PSG volume travels by air. *Id.* at 17. After the implementation of the proposed service standards, he estimates that air volume for RG will increase to 28.9 percent and PSG to 15.88 percent. *Id.* However, he expects that the ratio of air to surface volume for these products will decrease over time as the surface transportation network grows. *Id.*

Witness Bray concludes his testimony by stating that “[s]hifting RG and PSG volume to follow FCPS volume would improve processing times by reducing the number of touches that RG-PSG packages receive during processing.” *Id.* He also believes that consolidation with FCPS should enable future optimization and maximize surface transportation efficiency. *Id.*

3. Witness Bozzo Testimony

Witness Bozzo, an economic research consultant, estimated the cost impact from the planned changes to the RG and PSG service standards by comparing current processing and transportation costs for those products with estimated costs under the new service standards. Witness Bozzo Testimony at i, 1-2. He explained that while improving service standards may generally be assumed to increase costs, there are some cost efficiencies that may be created by aligning RG and PSG with FCPS processing and transportation. *Id.* at 1. Specifically, he notes that this process may

reduce or eliminate touches of RG and PSG in the NDC network. *Id.* On the other hand, he does note additional costs that may be caused by shifts in the mode of transportation for certain RG, PSG, and FCPS pieces as a result of the realignment. *Id.* at 1-2.

Witness Bozzo derived costs for the current RG and PSG mailflow from the Postal Service's Annual Compliance Report (ACR). *Id.* at 2. In order to compute the change in mail processing costs, he compared these costs to ACR models modified to reflect FCPS mailflows. *Id.* Once he had calculated the unit cost differences for RG and PSG, he multiplied the differences by RG and PSG volumes to determine "the volume variable cost (VVC) impact, excluding any effects of volume changes induced by the service standard changes." *Id.* Similarly, in order to calculate the transportation cost impacts of the planned service standard changes, Witness Bozzo looked at the "transportation costs per cubic foot in the current state for FCPS, PSG, and RG pieces that would change modes under the planned standards," and then multiplied this number by the total volume of FCPS, RG, and PSG that would change modes. *Id.*

The Postal Service estimates a total mail processing cost reduction of \$31.9 million combined for RG and PSG. *Id.* at 5. The Postal Service attributes the cost reductions to the elimination of touches that RG and PSG packages receive in the NDC network. *Id.* at 1.

On the other hand, the Postal Service projects a net transportation cost increase of \$35.7 million. *Id.* at 6. The Postal Service explains the increase in transportation costs is due to the RG, PSG, and FCPS mode shift from commercial air and surface transportation to FedEx Day Turn. *Id.* at 5-6. Thus, while RG and PSG transportation costs will decrease by \$4.7 million, they will be offset by increased FCPS transportation costs of \$40.4 million. In total, then, Witness Bozzo expects that the estimated net cost increase of the changes to the RG and PSG service standards will be \$3.8 million. *Id.* at 6.

IV. ANALYSIS OF PROPOSED SERVICE CHANGES

The Public Representative agrees with the Postal Service that upgrading the service standards for RG and PSG and combining the operational scheme for those

products with FCPS operations is a worthwhile improvement. This change stands to benefit customers by providing a medium-speed, low-price ground shipping option for larger products while also benefitting the Postal Service by further optimizing its processing and transportation networks. However, the Public Representative notes several areas of concern related to the proposed service standard changes for RG and PSG, which are discussed below.

A. Impact on On-Time Service Performance

The effect that the operational changes necessary to increase RG and PSG speed will have on the on-time service performance of RG and PSG cannot currently be predicted with any certainty. As an initial matter, the Postal Service's proposed service standard changes in the instant proceeding are predicated on the implementation of the service standard changes to FCPS in Docket No. N2021-2, which in turn, were conditioned on the successful implementation of service standard changes to First-Class Mail and end-to-end Periodicals in Docket No. N2021-1.⁸ It is important to note that the service standard changes to FCPS, First-Class Mail and end-to-end Periodicals have no proven record of success,⁹ and no operational or pilot testing has occurred, a fact the Commission identified in its previous Advisory Opinions.¹⁰ Nor is such testing for RG and PSG apparent on the record here. This is particularly concerning given the Postal Service's claim in previous dockets that reliability is the number one driver of

⁸ See, e.g., Witness Bray Testimony at 10 (explaining that RG and PSG service standards "would shift to align with those for FCPS in the Contiguous United States"); Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021, at 69 (Docket No. N2021-2, Advisory Opinion) ("The surface transportation changes proposed in this docket are closely linked to the surface transportation changes for Market Dominant FCM letters and flats subject to Docket No. N2021-1").

⁹ Because FCPS is a Competitive product, the Public Representative does not have ready access to FCPS service performance results. Moreover, though there are indications that the changes to the service standards for First-Class Mail and end-to-end Periodicals have led to favorable service performance results, given the presence of the COVID-19 pandemic and the limited time that these changes have been in place, it is too early to say whether these improvements will be sustained.

¹⁰ Docket No. N2021-2, Advisory Opinion at 79-80; Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021, at 99 (Docket No. N2021-1, Advisory Opinion).

customer satisfaction.¹¹ As such, the implementation of service standard changes without adequate testing opens up the Postal Service to potential risks.

That said, though the Public Representative cannot accurately predict whether the on-time service performance for RG, PSG, or FCPS will improve if this plan is implemented, considering that the intent of this plan is to reduce touches for the mail in question and many of the current problems regarding service performance can be attributed to these touches, the Public Representative believes it is fair to suggest that on-time service performance could improve if this plan is successfully implemented.¹²

B. Transportation Issues

As explained above, the proposed service standard changes require RG and PSG products to be added to the FCPS surface transportation network. *See, e.g.*, Request at 7. However, as the Commission noted in its advisory opinion in Docket No. N2021-2, the Postal Service's surface transportation network is currently experiencing numerous issues that negatively impact reliability and cost. Docket No. N2021-2, Advisory Opinion at 76-78. Specifically, in addition to the "routine" delays caused by loading problems, disruptive weather events, and underperforming contract trucker suppliers, surface transportation is also beset by pandemic-related issues such as increased package volume and a shortage in truck drivers. *Id.* at 76-77. The proposed service standard changes do not automatically solve any of these issues with surface transportation, and in fact may well exacerbate them.

¹¹ *See, e.g.*, Docket No. N2021-2, Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service (USPS-T-3), June 17, 2021, at 5.

¹² The Commission's discussion of service performance in the FY 2021 ACD provides a comprehensive analysis of the matters that lead to delays in the delivery of mail. *See* Docket No. ACR2021, *Annual Compliance Determination*, March 29, 2022, at 104-201. From missed scans to broken bundles, the Public Representative believes that fewer instances of handling the mail may lead to fewer delays.

In this vein, the Public Representative specifically takes note of the fact that inter-SCF network costs increased 32 percent between FY 2020 and FY 2021.¹³ Witness Bozzo explains that these increases were attributed to a number of pandemic-related factors, “namely shifts in transportation mode usage due to lack of air supplier availability, increases in the per-mile costs of highway contracts, and an increase in miles driven.”¹⁴ Shifting RG and PSG to the FCPS operation may help optimize productivities and combat increasing surface transportation costs. As the Postal Service has made surface transportation a hallmark of its Ten-Year Strategic Plan, the Public Representative suggests that it continue to monitor these inter-SCF network costs going forward.

C. Modeling and Research versus Testing

As discussed throughout this statement, the current docket presents similar issues to those identified by the Public Representatives in Docket Nos. N2021-1 and N2021-2 regarding the use of modeling and market research rather than testing.¹⁵ In those cases, the Public Representatives explained the limitations of using modeling and research to predict both customer behavior and financial results—namely, that modeling is susceptible to imperfections in implementation, that small changes can have large impacts on modeling results, and that the existing market research may not accurately predict future customer behavior.¹⁶ For these and other reasons, the Commission tended to agree in its advisory opinions in Docket Nos. N2021-1 and N2021-2 that the modeling and research conducted by the Postal Service in preparation for their

¹³ See Docket No. ACR2021, Library Reference USPS-FY21-32, Excel file “CS14-Public-FY21.xlsx,” tab “WS14.4,” cell O47 for the FY 2021 inter-SCF transportation costs. See Docket No. ACR2020, Library Reference USPS-FY20-32, Excel file “CS14-Public-FY20.xlsx,” tab “WS14.4,” cell O47 for the FY 2020 inter-SCF transportation costs.

¹⁴ Responses of the United States Postal Service to Questions 1-7 of Presiding Officer’s Information Request No. 2, April 13, 2022, question 3.a. (Response to POIR No. 2).

¹⁵ See Docket No. N2021-1, Initial Brief of the Public Representative, June 21, 2021, at 21-23 (Docket No. N2021-1, PR Brief); Docket No. N2021-2, Initial Brief of the Public Representative, August 20, 2021, at 15-24 (Docket No. N2021-2, PR Brief).

¹⁶ See Docket No. N2021-1, PR Brief at 21-23; Docket No. N2021-2, PR Brief at 17, 19-20.

proposed changes would have limited predictive value.¹⁷ The Public Representative acknowledges the difficulties and costs associated with operational and pilot testing but reiterates that such testing can be beneficial given the dynamic nature of mail processing and delivery.¹⁸

D. Impact on Customer Satisfaction

As discussed above, the Postal Service indicates that its industry and market data suggest that there is “significant unmet market demand for a medium-speed, low-cost ground transportation product for shipping packages” that will be addressed by shortening the service standard for RG and PSG products. Witness Jarboe Testimony at 2. Specifically, the Postal Service determined that the demand for ground shipping service is large and growing, and that customers for these products “tend to be more price conscious.” *Id.* at 6-7. The Postal Service’s “interviews with shipping industry leaders, logistics experts, mid-market shippers and an online survey of commercial e-commerce business shipping decision makers” also revealed “existing demand for increased package delivery speed.” *Id.* at 7 (footnote omitted).

The Public Representative has no reason to doubt the Postal Service’s general conclusions—namely that the ground shipping market is increasing and that ground shippers are price conscious while also favoring increased delivery speed. However, the Public Representative notes several issues with the manner in which the Postal Service came to these conclusions.

First, the Postal Service’s assertion that ground shippers are price conscious, while logical, may not be properly supported by quantitative or qualitative evidence. The Postal Service points to its “Commercial Shipper Survey,” as well as its general experience, to support the notion that shippers “choose a ground shipping solution in

¹⁷ See, e.g., Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021, at 2-4 (Docket No. N2021-1, Advisory Opinion); Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021, at 3-4.

¹⁸ See Docket No. N2021-1, Advisory Opinion at 2.

lieu of a faster transit mode in exchange for a discount and/or a less expensive rate.” See Response to POIR No. 1, question 4. However, the Commercial Shipper Survey appears to have been directed at *all* shippers, not just those using ground methods. See Witness Jarboe Testimony at 7. Therefore, the Postal Service’s evidence may not be representative of the actual group it purports to measure.

It is logical to assume that because ground shippers are choosing to send items by ground rather than air, they must be more concerned with price than with the speed of delivery. However, there are other reasons that customers may choose to ship via ground methods. They may, for instance, be heeding the Postal Service’s suggestion that ground shipping is more reliable than air.¹⁹ The Public Representative cautions that, in the absence of a pre-implementation study of ground shippers specifically, the Postal Service may find that they value other factors as or more highly than price.

Second, the Public Representative notes that the survey conducted by the Boston Consulting Group was fairly limited in terms of the number and type of participants. Considering that the study did not survey retail customers, the Public Representative is concerned that the Postal Service’s expectations as they relate to RG mailers may lack sufficient support. Assuming that the proposed service standard changes result in faster service, it is possible that RG mailers will appreciate that speed and continue, or even increase, their use of the product. However, in the event that the faster service leads to declines in reliability (*i.e.*, on-time service performance), as discussed above, RG mailers may become dissatisfied with the product. Nothing in the Postal Service’s Request permits an accurate assessment as to whether RG mailers are likely to be satisfied with the service standard changes.

¹⁹ See, *e.g.*, Docket No. N2021-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 21, 2021, at 7 (“surface transportation is both more reliable and cost-effective than air transportation”); United States Postal Service, *Delivering For America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, at 13, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (Ten-Year Strategic Plan) (noting that “[s]ervice through ground transportation has historically outperformed air” in terms of on-time service performance).

E. Projected Revenue Implications

The Postal Service projects the planned merging of RG and PSG with FCPS mailflows will have a net cost increase of \$3.8 million in mail processing and transportation costs. Witness Bray Testimony at 6. The table below illustrates the estimated net cost impacts as described by the Postal Service through Witness Bray's testimony.

Table 3
Estimate Net Cost Impacts

Net Cost Impacts			
Description	Mail Processing	Transportation	Total
FCPS	\$ -	\$ 40,405,094	\$ 40,405,094
RG	\$ (17,075,538)	\$ (4,550,150)	\$ (21,625,688)
PSG	\$ (14,865,705)	\$ (115,440)	\$ (14,981,145)
Total	\$ (31,941,243)	\$ 35,739,504	\$ 3,798,261

Source: Library Reference USPS-LR-N2022-1/1, April 15, 2022, Excel file "RG.PSG.FCPS.Cost.Impact.Public.Revised.04.15.2022.xlsx," tab "Summary_MP_Trans."

In general terms, the Public Representative finds no issue with the Postal Services' discrete estimates. The Public Representative notes that the methodology employed to calculate the projected cost savings, including the assumptions made therein, is sound. It seems reasonable that moving a relatively small amount of volume (from RG and PSG) to the FCPS mailflow would have negligible effects on existing processing of FCPS and other parcel products. The Public Representative also acknowledges that on a net basis, the merging of RG and PSG with FCPS volume has a relatively small impact on total mail processing and transportation costs.

However, given the Postal Service's track record in this and other similar cases involving projected finances, the Public Representative cannot conclusively say that the projected cost estimate is accurate. Historically, not all Postal Services projected cost savings estimates have materialized.²⁰ As would be expected, instances exist where

²⁰ See Docket No. RM2017-3, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, November 30, 2020, at 236 n.293 (Order No. 5763) (noting that "the Postal Service's cost reduction initiatives have repeatedly failed to realize the level of cost savings projected by the Postal Service").

Postal Service cost savings estimates were either overstated or, in actuality, unattainable. Moreover, in this specific case, the Postal Service has already changed its projected cost estimate from initially projecting slight (\$5 million) savings to now projecting a slight (\$4 million) increase in costs. Notice of Revisions at 1-2. The Public Representative does not intend to imply that a single mathematical error should be dispositive in this instance. It is merely one example of why the Postal Service should tread lightly when moving forward with these service standard changes. The Public Representative maintains that how the proposed service standard changes are actually implemented will be the key factor with regard to the amount of cost savings that are actually realized.

The Public Representative also notes that the current projected cost estimate does not appear to take into account any volume diversion from PM to RG and PSG. See Witness Bozzo Testimony at 3-6. Given that the service standards for RG and PSG will be improving, the potential exists for customers who previously used PM to begin shipping with the lower-cost RG and PSG products, with resulting negative revenue implications. Witness Jarboe Testimony at 10-11. The Postal Service should be mindful of this possibility when projecting the cost implications for the proposed service standard changes.

For these reasons, the Public Representative cannot recommend that the Commission rely on the cost projections in the development of its advisory opinion.

V. CONCLUSION

As previously discussed, the Public Representative appreciates the Postal Service's efforts to make RG and PSG faster and more appealing to customers and is in favor of the proposed service standard changes. Generally, many of the Postal Service's projections related to network capacity, customer satisfaction, improved on-time performance, and revenue are intuitive. It seems reasonable that, in the current environment, the ground shipping market is large and increasing and that its participants are cost-conscious. Similarly, it seems reasonable that, if a certain transportation network is being underutilized, it could probably absorb additional

volumes, particularly when those volumes are relatively small. And if volumes are shifted to a more reliable transportation network with less frequent touches (*i.e.*, the FCPS network), it seems reasonable that on-time performance and customers satisfaction would improve, and customers would choose to continue to purchase that service because both reliability and speed have improved.

However, as noted above, there are some concerning gaps in the evidence upon which the Postal Service's conclusions about the ground shipping market and customer satisfaction are based. Moreover, because the operational changes necessary to implement the new service standards have not been tested, related projections regarding cost and service performance are merely speculative. As such, there are risks inherent to the proposed service standard changes, especially in this instance, where the product involved is a Competitive product and consumers have other options for their ground shipping needs.

For the aforementioned reasons, the Public Representative supports the Postal Service's proposed service standard changes to RG and PSG products but suggests that it be mindful of the limitations of its own projections and conclusions.